COMMENTARY

Janus Henderson US Strategic Value Fund

Q2 2020

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For professional investors only

Fund manager names: Ted Thome, CFA

US Macro

The second quarter was one for the record books as it marked the biggest quarterly gains since 1987 and followed one of the worst quarters in decades. The gains were driven by swift and aggressive monetary and fiscal stimulus, economic data that showed an encouraging recovery in jobs and retail sales and optimism for business reopenings across the US. The market has remained focused primarily on the potential shape of the economic recovery as the path of the COVID-19 coronavirus, as well as potential treatments and vaccines, showed promise but remain largely uncertain. During the second quarter, the most economically sensitive sectors and companies experienced one of the greatest rebounds after being hit the hardest during the first quarter.

Top/Bottom

The fund underperformed its benchmark, the Russell 3000® Value Index, for the quarter.

Our cash positioning weighed on performance, as did the underweight position in what we view as lower-quality consumer discretionary and energy stocks. Stock selection in materials, real estate and industrials also detracted from relative returns. However, positive stock selection across many sectors, including communication services, financials, health care, consumer staples, energy, utilities and technology, contributed to relative performance, as did our overweight position in technology and consumer staples and underweight position in utilities, communication services and financials.

Year-to-date performance in 2020 has been a microcosm of how we expect to perform in various markets. Outperformance in the first quarter illustrates our focus on downside protection, while performance in the second quarter demonstrates how we may lag in big up markets given the higher quality focus of the fund. Overall, we believe we are positioned to outperform through the cycle with less risk.

We continued to take advantage of the market's volatility in the early part of the second quarter, as we view dislocations in equity markets as providing meaningful opportunities for active value investors. We added to some of our highest-conviction holdings on weakness and started a few new positions across multiple sectors, including health care, industrials, real estate and utilities. The new positions are in companies where valuations became much more reasonable, yet the fundamentals are attractive to us over the longer term.

In general, we funded the buys by trimming positions that outperformed and whose reward-to-risk ratios became relatively less attractive. Overall, absolute sector weights increased for technology, industrials, energy and consumer staples and decreased for health care, real estate, utilities and materials.

Outlook and Positioning

Given the rebound in the second quarter, the direction of the market from this point seems highly dependent on the status and path of the COVID-19 pandemic and the ability of the economy to fully reopen. With many unknowns, we believe having a balance of both cyclical and non-cyclical exposure is prudent for the time being. We think having this balance will help the fund withstand another sharp downturn while also enabling it to participate in any upside.

As with any crisis, the pandemic brings both opportunity and change. We believe this crisis will cause some industries and companies to emerge weaker, while others will emerge stronger. Larger companies with scale advantages may fortify their dominance in some industries, while smaller, niche companies may be able to accelerate growth as they present new solutions. In both cases, we have the flexibility to find opportunities across the market-cap spectrum.

Although monetary and fiscal stimulus provide some protection for more-levered companies, we remain steadfast in seeking investments in companies with durable competitive advantages combined with strong balance sheets and financial flexibility that we believe can endure in a wide range of economic outcomes.

From a sector perspective, we intend to remain overweight real estate with holdings that have strong supply-demand dynamics and could benefit from a lower-for-longer interest rate environment. We also remain overweight health care stocks, as we believe favourable secular trends will persist and the value of health care will become even more apparent during this pandemic. Lastly, technology is another sector in which we expect to maintain an overweight position given many positive secular trends, stability of cash flows and strong balance sheets.

Conversely, we remain underweight sectors that we view as fundamentally challenged, such as consumer discretionary and energy.

We continue to believe that our philosophy and process help provide an appropriate perspective in a market with elevated volatility and uncertainty, and that we remain well equipped to take advantage of opportunities regardless of the shape of the recovery.

Source: Janus Henderson Investors, as at 30 June 2020

Janus Henderson US Strategic Value Fund

Fund information

Index Russell 3000 Value
Morningstar sector Morningstar Europe OE US Flex-Cap Equity
Objective The Fund aims to provide capital growth over the long term.
Performance target To outperform the Russell 3000 Value Index by 2.5% per annum, before the deduction of charges, over any 5 year period.

Performance %	I Acc (Net)	Index	Sector	Quartile ranking	I Acc (Gross)	Target (Gross)
1 month	-1.6	-0.5	1.9	4th	-	-
YTD	-12.7	-16.7	-4.4	4th	-	-
1 year	-5.1	-9.4	2.9	4th	-	-
3 years (annualised)	3.0	1.4	6.7	4th	-	-
5 years (annualised)	5.5	4.4	6.2	3rd	6.8	7.0
10 years (annualised)	8.0	10.2	10.2	4th	9.6	13.0
Since inception (annualised)	5.8	6.2	6.1	-	7.2	8.9

Source: at 30 June 2020. © 2020 Morningstar. All rights reserved, performance is with gross income reinvested.

Discrete year performance %	I Acc (Net)	Index	Sector	I Acc (Gross)	Target (Gross)
30 Jun 2019 to 30 Jun 2020	-5.1	-9.4	2.9	-3.9	-7.1
30 Jun 2018 to 30 Jun 2019	6.3	7.3	4.3	7.6	10.0
30 Jun 2017 to 30 Jun 2018	8.2	7.3	13.2	9.5	9.9
30 Jun 2016 to 30 Jun 2017	15.5	16.2	17.5	17.0	19.1
30 Jun 2015 to 30 Jun 2016	3.3	2.4	-5.2	4.9	5.0

Source: at 30 June 2020. © 2020 Morningstar. All rights reserved, performance is with gross income reinvested. Discrete performance data may change due to final dividend information being received after quarter end.

Source for target returns (where applicable) - Janus Henderson. Where quartiles are shown, 1st quartile means the share class is ranked in the top 25% of share classes in its sector.

Performance/performance target related data will display only where relevant to the share class inception date and annualised target time period.

Please note the performance target is to be achieved over a specific annualised time period. Refer to the performance target wording within the objective.

Past performance is not a guide to future performance. The value of an investment and the income from it can fall as well as rise and you may not get back the amount originally invested.

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For further information on the Janus Henderson fund range please contact your local sales office or visit our website: www.janushenderson.com

Benelux
Janus Henderson Investors
Tel: +31 20 675 0146
Fax: +31 20 675 7197
Email: info.nederlands@janushenderson.com

France/Monaco/Geneva
Janus Henderson Investors
Tel: +33 1 53 05 41 30
Fax: +33 1 44 51 94 22
Email: info.europe.francophone@janushenderson.com

Germany/Austria
Janus Henderson Investors
Tel: +49 69 86 003 0
Fax: +49 69 86 003 355
Email: info.germany@janushenderson.com

Dubai
Janus Henderson Investors
Tel: +9714 401 9565
Fax: +9714 401 9564
Email: JanusHenderson-MEACA@janushenderson.com

Hong Kong
Janus Henderson Investors
Tel: +852 2905 5188
Fax: +852 2905 5138
Email: marketing.asia@janushenderson.com

Italy
Janus Henderson Investors
Tel: +39 02 72 14 731
Fax: +39 02 72 14 7350
Email: info.italy@janushenderson.com

Latin America
Janus Henderson Investors
Tel: +44 20 7818 6458
Fax: +44 20 7818 7458
Email: sales.support@janushenderson.com

Nordics
Janus Henderson Investors
United Kingdom
Tel: +44 20 7818 4397
Fax: +44 20 7818 1819
Email: sales.support@janushenderson.com

Singapore
Janus Henderson Investors
Tel: +65 6836 3900
Fax: +65 6221 0039
Email: marketing.asia@janushenderson.com

Spain/Portugal/Andorra
Janus Henderson Investors
Tel: +34 91 562 6172
Fax: +34 91 564 6225
Email: info.iberia@janushenderson.com

Switzerland (Germanic)
Janus Henderson Investors
Tel: +41 43 888 6262
Fax: +41 43 888 6263
Email: info.switzerland@janushenderson.com

United Kingdom
Janus Henderson Investors
Tel: +44 20 7818 1818
Fax: +44 20 7818 1819
Email: sales.support@janushenderson.com

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